

COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Order Instituting a Notice of)

Inquiry/Generic Proceedings) D.T.E. 99-60

Into the Pricing and)

Procurement of Default Service)

Below are the Reply Comments of the Associated Industries of Massachusetts ("A.I.M.") regarding the pricing and procurement of default service.

A.I.M. will not repeat what was stated in its Initial Comments. We will instead take this opportunity to comment on various proposals which were presented by other interested parties. It is clear by the number of comments filed that the pricing and procurement of default service is an important issue for customers, suppliers, distribution companies, and generating facilities.

I. PRICING

As stated by A.I.M. and many other interested parties, the price of default service should be a retail, not a wholesale, price. The issue of debate revolves around what costs should be included in the retail price. The Department should ensure that the costs included to provide default service are the actual costs to provide such service. There should be no subsidies or adders that would create additional costs for customers using this service. Costs such as customer acquisition should not be borne by ratepayers. Moreover, A.I.M. agrees with the Attorney General that distribution rate changes should be avoided so as not to violate the terms of settlement agreements which require a rate freeze through the end of the year 2000.

A.I.M. believes that the price of default service should be tied to the market. Because of different rate structures between utilities, the all-in retail cost will vary. A state-wide default service rate would require some utilities to incur losses and therefore, would result in deferrals - a situation which should be avoided. A.I.M. agrees with the Division of Energy Resources ("D.O.E.R.") that we should avoid the creation of deferrals in the pricing of default service.

1. PROCUREMENT

Default service providers should be required to take a mix of customer classes, large, medium, and small, with varying load factors. Separate bids by customer class is a concept that has recently been discussed. A.I.M. believes that small low-load factor customers could be harmed by such a procurement process as no supplier may step in to

serve these customers. The role of default service providers is to provide reliable, low-cost service to all customers who are eligible for such service. This is not a competitive service in which suppliers can pick and choose their potential customers. Default service providers should be required to provide service to a variety of customer classes and to manage the risk involved with such a diversified group.

Lastly, A.I.M. feels strongly about a key issue involved with providing default service-customer assignment. Customers should not be assigned to a new supplier at anytime without their consent. It was clear during the drafting of the Electric Industry Restructuring Act that the Legislature did not want customers to be assigned to a new supplier or forced to choose a new supplier. Default service was created for those customers who choose not to choose. Assigning customers to a competitive supplier without their knowledge or consent is bad public policy and contrary to Legislative intent, as is clearly stated in the "anti-slamming" provision of the restructuring statute.

On the other hand, the Department should do all that is possible to encourage customers to take advantage of the benefits that the competitive market can create without forcing them into such a market. Massachusetts Electric Company's ("MECo") proposal is a good model to work from. Educating customers and giving them a menu of choices is an important component of a competitive marketplace. Identifying suppliers and opportunities for customers will assist them in making informed decisions. MECo's proposal should be considered by the Department as it is both customer and supplier friendly.

D.O.E.R.'s proposal in which a customer can stay with the default service provider in the second six-month term as a competitive customer, is an approach which should be discussed and examined in more detail. However, for such a system to work, adequate consumer protections must be incorporated. A.I.M. is concerned that the former default service provider, now the customer's competitive supplier, could change the terms of such service without the customer's knowledge. There would have to be a serious effort to educate customers so at the end of the default service period the customer knows the difference between default service and a competitive service. Though the supplier may be the same, the service and price may be different and customers must understand this distinction.

A.I.M. does disagree, however, with one element of the D.O.E.R.'s proposal in which a customer who is a default customer and does not "affirmatively" choose to stay on default service would be assigned to a competitive supplier. Though the competitive supplier would be the same as the default service provider of the first six months, as previously stated, the service and price would be different. Thus, if a customer does not make a choice, that customer should remain on default service as a default service customer. Doing otherwise would create customer confusion and would be a form of "slamming" as the customer may not be aware that he/she is now in the competitive arena.

A.I.M. appreciates the opportunity to comment on this issue. We look forward to working with the Department on the next phase of this proceeding.

RESPECTFULLY SUBMITTED

By: Judith A. Silvia, Esq.

Robert R. Ruddock, Esq.

Associated Industries of Massachusetts

222 Berkeley Street

P.O. Box 763

Boston, MA 02117-0763

Dated: July 28, 1999